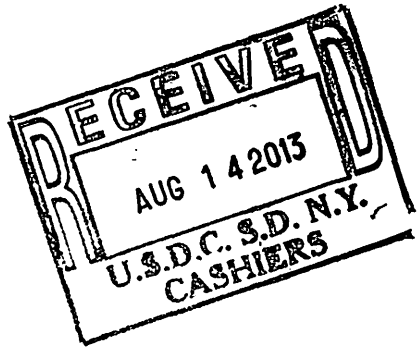
ANDREW M. CALAMARI
REGIONAL DIRECTOR
Michael J. Osnato
Steven G. Rawlings
Joseph O. Boryshansky
Peter Altenbach III
Joshua I. Brodsky
Daniel Michael

SECURITIES AND EXCHANGE COMMISSION
New York Regional Office
3 World Financial Center, Suite 400
New York, NY 10281
Tel: (212) 336-1100

13 CV 5677



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

- against -

JAVIER MARTIN-ARTAJO and
JULIEN G. GROUT,

Defendants.

No. 13 Civ. _____

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint against Defendants Javier Martin-Artajo ("Martin-Artajo") and Julien G. Grout ("Grout"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. The Commission brings this action against Martin-Artajo and Grout, two former traders at JPMorgan Chase & Co. ("JPMorgan"), for fraudulently mismarking investments in a multi-billion dollar portfolio they managed, known as the Synthetic Credit Portfolio ("SCP"), in order to conceal hundreds of millions of dollars in mark-to-market losses.

2. The SCP, created by JPMorgan's Chief Investment Office ("CIO") as a hedge against adverse credit events, was invested in various credit derivative indices and tranches. In early 2012, due to improving credit markets and a changed investment strategy, the value of the SCP's investments began to decline. In March 2012, when the decline accelerated, Martin-Artajo and Grout began to fraudulently mark the SCP's investments to conceal the true extent of mark-to-market losses from JPMorgan management.

3. The traders responsible for the SCP had to mark its investments at fair market value, which before March 2012 they had done primarily by marking at or close to mid-market prices reflected in bid and ask quotations received from market participants. As the SCP's value declined, however, Grout, following Martin-Artajo's direction, began marking the SCP away from mid-market levels, using prices deliberately chosen to minimize losses rather than represent fair value. Grout entered these marks into JPMorgan's systems daily, and sent reports to JPMorgan management that understated the SCP's mark-to-market losses.

4. By March 30, 2012, the gap between Grout's marks and mid-market prices had grown to hundreds of millions of dollars. To minimize quarter-end losses, Martin-Artajo urged Grout to mark the SCP to a desired loss result significantly below estimates based on market information. And contrary to JPMorgan's policy, Martin-Artajo instructed Grout to wait for better prices after close of trading in London (where the traders were located), in the hope that trading in the U.S. markets would support more favorable marks. At day's end, Grout marked the SCP to meet the desired result Martin-Artajo had requested.

5. Martin-Artajo and Grout continued their mismarking scheme in April 2012. On April 10, the first trading day in London after media articles had reported the large size of the SCP's investments, the portfolio declined in market value by hundreds of millions of dollars.

Nevertheless, Martin-Artajo directed Grout to disclose to management only $5.7 million in daily mark-to-market losses—a figure that Grout disseminated but ultimately replaced later the same day with a much larger loss of $395 million.

6. On April 13, 2012, JPMorgan reported its results for the first quarter of 2012. Due to the misconduct of the Defendants, these results overstated the firm's consolidated income by hundreds of millions of dollars. A week later, JPMorgan received collateral calls of more than half a billion dollars related to the SCP's investments. It thereafter relieved Martin-Artajo and Grout of their authority to trade and mark the SCP and reverted to marking the portfolio to mid-market prices.

7. On July 13, 2012, after investigating the SCP traders and their quarter-end marks, JPMorgan announced that it would restate its results for the first quarter 2012. The restatement, which was attributable to the marks Martin-Artajo and Grout had manipulated and inflated, reduced JPMorgan's consolidated quarterly income before income tax expense by $660 million.

SECURITIES LAWS VIOLATIONS

8. By reason of the foregoing conduct and as alleged further herein, Defendants Martin-Artajo and Grout, directly or indirectly, singly or in concert, have engaged in acts, transactions, practices, schemes, or courses of business that violated Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78m(b)(5)] and Rules 10b-5(a) and (c) and 13b2-1 thereunder [17 C.F.R. 240.10b-5(a) and (c) and 240.13b2-1]. By reason of the conduct alleged herein, Defendants Martin-Artajo and Grout also aided and abetted violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act [15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)], and Rules 12b-20, 13a-11 and 13a-13 thereunder [17 C.F.R. 240.12b-20, 240.13a-11 and 240.13a-13].

9. Unless each of the Defendants is permanently restrained and enjoined, they may again engage in the acts, transactions, practices, schemes, or courses of business that are set forth in this Complaint or in acts, transactions, practices, schemes, or courses of business of similar nature, type or object.

JURISDICTION AND VENUE

10. The Commission brings this action pursuant to Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)] seeking, among other things, a final judgment: (a) permanently restraining and enjoining the Defendants from committing future violations of the foregoing provisions of the federal securities laws; (b) ordering the Defendants to disgorge their ill-gotten gains, with prejudgment interest; (c) ordering the Defendants to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and (d) granting such equitable and other relief as the Court deems just, appropriate or necessary for the benefit of investors [15 U.S.C. § 78u(d)(5)].

11. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa]. The acts, transactions, practices, schemes, and courses of business constituting the violations alleged in this Complaint had a foreseeable substantial effect within the United States. The Defendants, directly or indirectly, have used the mails and the means and instrumentalities of interstate commerce in connection with the acts, transactions, practices, schemes, and courses of business alleged in this Complaint.

DEFENDANTS

12. **Javier Martin-Artajo**, age 49, was at all relevant times a Managing Director and Head of Europe and Credit & Equity in JPMorgan's CIO and was responsible for overseeing the

SCP. Martin-Artajo principally worked out of CIO's office in London, United Kingdom, but his work duties also brought him to JPMorgan's offices in the United States, including in New York. Martin-Artajo is a resident of the United Kingdom and a citizen of Spain.

13. **Julien G. Grout**, age 35, was at all relevant times a Vice President in CIO's office in London, United Kingdom. Grout reported to Martin-Artajo. He is a resident of the United Kingdom and a citizen of France.

OTHER RELEVANT ENTITIES AND INDIVIDUAL

14. **JPMorgan**, a Delaware corporation headquartered in New York, New York, is a global banking and financial services firm whose common stock is registered with the Commission under Section 12(b) of the Exchange Act [15 U.S.C. § 78l(b)] and traded on The New York Stock Exchange under the symbol "JPM."

15. **CIO** is a unit of JPMorgan and part of the firm's Corporate/Private Equity reporting segment. CIO is responsible for investing excess deposits that JPMorgan's banking arm obtains from depositors. CIO maintains offices in New York, New York and London, United Kingdom. Members of CIO's senior management, including the head of CIO during the period relevant to this Complaint, were based in JPMorgan's New York office.

16. **Cooperating Witness 1** ("CW-1") was, at all relevant times, a trader in CIO with responsibility for managing investments in the SCP.

FACTUAL ALLEGATIONS

A. The Synthetic Credit Portfolio

17. CIO established the SCP in 2007 to protect JPMorgan from adverse credit events, such as widespread corporate defaults. In the years that followed, investments in the SCP consisted primarily of credit derivative indices and portions (or "tranches") of those indices,

constructed to track a basket of credit default swaps ("CDS") that referenced the debt of corporate issuers. A CDS is, in essence, an insurance contract on an underlying credit risk. For example, to insure against the risk that a certain company would default on its debt, an investor can "buy protection" in the form of a CDS. The counterparty on the CDS would be "selling protection," which means that it would agree, in return for periodic premium payments, to pay the investor in the event the referenced company defaults on its debt. The buyer or seller need not own the underlying asset, such as the corporate debt, in order to buy or sell the CDS.

18. The SCP was invested in two primary CDS index groups: CDX, a group of North American and Emerging Markets indices, and iTraxx, a group of European and Asian indices. Some indices referenced companies considered to be "investment grade" and others referenced companies considered to be "high-yield" (which generally means that their credit risk is viewed as higher, as reflected in the high interest rate, or yield, on their outstanding debt). Investors in CDX and iTraxx indices and tranches can be long risk, which is equivalent to selling protection on a CDS, or short risk, which is equivalent to buying protection.

19. Beginning in 2008, the SCP's investment strategy consisted of holding a net short risk position in high-yield indices and tranches, which meant that the portfolio was positioned to make gains if high-yield companies were to default on their corporate debt or were perceived as more likely to default on such debt. Through the end of 2011, this strategy made approximately $2 billion in revenues for JPMorgan.

20. In December 2011, as credit markets improved and in preparation for complying with the capital adequacy standards of a regulatory agreement known as the Third Basel Accord, JPMorgan's management directed CIO to reduce its short risk position as well as its use of regulatory capital (measured by the metric known as "Risk Weighted Assets"). To achieve this

reduction, CIO management and the SCP traders, including the Defendants, considered reducing the size of the SCP's short risk position in high-yield investments. The potential costs associated with this strategy, however, were estimated to be hundreds of millions of dollars.

21. To avoid these costs, CIO management and the traders decided instead to reduce the SCP's short risk position and use of regulatory capital by adding investments to its long risk investment-grade position as an offset to the short risk high-yield position. As CIO pursued this strategy, it also added to its existing high-yield short position. Because JPMorgan did not impose risk limits on the notional size of the SCP, the new trading strategy led to a large increase in the notional size of the portfolio in the first quarter of 2012, from $51 billion to $157 billion.

22. As credit conditions improved, the SCP was poised to lose money on its short risk high-yield investments but make money on the long risk investment-grade investments. However, in early 2012, the value of the investments in the SCP moved in such a way that losses on the short risk high-yield investments exceeded, in the aggregate, gains on the long risk investment-grade positions, causing the SCP to sustain net losses. Given the large notional size of the portfolio, these losses were very substantial.

B. The Marking of the SCP

23. Traders at JPMorgan, including those responsible for the SCP, were required to record in the books of the firm the changes in the fair value of the investments in the portfolios they managed—a process known as "marking" the investments to their market prices. JPMorgan reported its financial results, including mark-to-market profits or losses in its investment portfolios, in accordance with U.S. generally accepted accounting principles ("GAAP"). Under GAAP, JPMorgan traders were required to value their investments at the price at which they could reasonably expect to transact in the market.

24. The indices and tranches that the SCP was invested in were traded in a dealer's market. This meant, among other things, that dealers in the marketplace provided bid and offer quotations for those investments (the "bid" being the price at which the dealer would buy and the "offer" or "ask" the price at which it would sell). For investments priced using dealer bids and offers, GAAP required that JPMorgan traders use, in valuing their investments, "the price within the bid-ask spread that is most representative of fair value in the circumstances."

25. In addition to requiring traders to mark investments at fair value, JPMorgan's accounting policy provided guidance for the marking of derivatives, such as the credit indices and tranches held by the SCP. The policy stated that "[t]he starting point for the valuation of a derivatives portfolio is mid-market," meaning the midpoint between the best bid and offer prices quoted in the market. When dealer quotes were available for investments, the policy further stated that the prices used for marking such investments "must be obtained [from the dealers] at the same time each business day."

C. Mismarking of the SCP in March 2012

26. Grout was the trader primarily responsible for the marking of the SCP. In addition to entering marks into JPMorgan's books and records systems on a daily basis, Grout prepared and distributed daily mark-to-market profit and loss reports to CIO management, internally called "P&L Predicts," about the SCP's performance. Both Grout and Martin-Artajo knew that the marks for the SCP impacted the books of a United States company, and that the performance information Grout reported was summarized for CIO executives in New York. In 2012, Martin-Artajo regularly communicated with such executives regarding the SCP.

27. Before the first quarter of 2012, the marking practice of the traders in charge of the SCP was, consistent with JPMorgan policy, to derive a bid-offer spread for each investment

from dealer quotes received that day and then to mark the position at, or close to, the mid-market price within the spread—*i.e.*, the midpoint of the best bid and offer prices quoted by dealers in the market.

28. As the market value of the SCP declined in early 2012, adherence to this marking practice eroded. By the end of January 2012, the SCP's value declined by approximately $131 million. Although the marks for the portfolio were mostly at or close to mid-market prices, one large investment in the index known as the CDX North American Investment Grade Index Series 9 10-Year, or CDX IG S9 10Y, was marked more advantageously. By the end of February 2012, the SCP's value declined by an additional $88 million. While many of the portfolio's investments were marked at or close to mid-market prices, several positions were marked more advantageously, including investments in the CDX IG S9 10Y index and another large investment in the index known as the CDX North American High Yield Index Series 15 5-year, or CDX HY S15 5Y.

29. In March 2012, the SCP's value began to decline more precipitously. To conceal the full extent of this decline from JPMorgan management, Martin-Artajo and Grout engaged in a scheme to mismark the SCP. Martin-Artajo directed Grout to ignore, when marking the SCP, the decline in value indicated by the marketplace and instead aggressively mark the portfolio's investments to maximize value and avoid recording losses. As a result, the SCP marks began to substantially diverge from mid-market prices, as Grout started marking the SCP's largest investments at the advantageous end—and in some instances outside—of the bid-offer spreads reflected in dealer quotations.

30. Both Martin-Artajo and Grout engaged in this scheme to enhance the SCP's apparent performance, and thereby curry favor with their supervisors and enhance their

promotion prospects and bonuses at JPMorgan. Martin-Artajo also sought to forestall a possible plan by JPMorgan's management to transfer the SCP, one of Martin-Artajo's main responsibilities, away from CIO.

Martin-Artajo Directs That Disclosure of Losses Be Limited.

31. In early March 2012, after returning from JPMorgan's New York offices, Martin-Artajo instructed CW-1 to disclose losses when marking the SCP only when there was an explainable market event, but to record gains as they occurred. Martin-Artajo claimed that "New York"—that is, the bank's senior management—was behind this directive. On a telephone call on March 6, 2012, CW-1 relayed to Grout the instruction from Martin-Artajo: "[W]e have to try to show that the P[rofit] and L[oss] is stable . . . but what [Martin-Artajo] would like is that if you start to see some gains we have to report it."

32. Following Martin-Artajo's instructions, Grout stopped reflecting in the SCP's marks the decline in market prices that was reflected in the bids and offers received from dealers. Instead, he began marking many of the SCP's investments at the most favorable prices possible within the bid-offer spread, and sometimes outside the spread, in order to understate the full extent of the portfolio's mark-to-market losses. The traders concealed the reasons for the change in the manner in which the SCP was marked and the resulting difference between the SCP marks and mid-market prices. Among themselves, the traders referred to this difference as the "lag," "distance," or "divergence."

Martin-Artajo Ignores Concerns by CW-1.

33. As the gap between the marks Grout used for the SCP and the value of the portfolio based on market data grew larger, CW-1 became uncomfortable with Martin-Artajo's

directive not to disclose losses. CW-1 repeatedly expressed concerns to Martin-Artajo about the existence and size of this gap, which Martin-Artajo ignored.

34. On March 12, 2012, CW-1 explained to Martin-Artajo that, while the SCP's large size meant that it could be expected to have substantial profit/loss volatility, the results Grout reported to CIO management every day did not show such volatility, due to the mismarking. CW-1 told Martin-Artajo, "we should expect . . . daily P&L noise . . . of up to 20-40M." Yet, from March 7 to March 12, 2012, Grout's daily reports to management showed profit and loss volatility of only $122,000 to $1.1 million.

35. On March 15, 2012, CW-1 informed Martin-Artajo that "[t]he divergence increases between crude mid prices and our estimate. Julien will send a small spreadsheet recording the breakdown of the divergence . . . ." CW-1 then asked Grout to send to Martin-Artajo the "spreadsheet where u store the breakdown of the difference between our estimate and crude mids." The spreadsheet in question contained data from March 12 through March 15 quantifying the increasing divergence between Grout's marks and mid-market prices. The spreadsheet reflected that on March 15 the divergence reached $292 million. A later version of the spreadsheet showed that within a few days after March 15, the divergence had increased to $432 million.

36. On March 16, 2012, CW-1 continued to press Martin-Artajo about the growing divergence, highlighting that it "has increased to 300 [million] now . . . I reckon we get to 400 [million] difference very soon." CW-1 proposed that Martin-Artajo authorize a one-time adjustment to the marks, before the end of March, to bring the marks back to mid-market levels. Martin-Artajo ignored CW-1's proposal.

37. In a subsequent telephone call, Grout asked CW-1 if he had spoken to Martin-Artajo regarding his proposal. CW-1 confirmed that he did, but that Martin-Artajo "does not say anything, I find this ridiculous," and added, "I can't, I can't deal with this."

Grout Flouts CW-1's Guidance.

38. In a conversation with CW-1 on March 15, 2012, Grout acknowledged that he was no longer marking the SCP's investments at, or close to, mid-market levels as the traders had done before: "i am not marking at mids as per a previous conversation." Grout also told CW-1 that he was placing nearly all of the divergence in prices from mid-market levels into one large SCP investment—the CDX IG S9 10Y index. CW-1 replied that this was not appropriate and that, in marking the SCP, it was important that Grout apply judgment and develop a reasoned basis for the marks and that he stay within the bid-offer spread reflected in dealer quotes.

39. On March 16, 2012, CW-1 provided Grout with a proposed mark for several of the SCP's investment-grade positions. While Grout told CW-1 that he would "use your levels," he in fact marked the investments much more aggressively and, in the case of the CDX IG S9 10Y index, altogether outside the bid-offer spread. The lowest bid received by CIO from dealers on March 16 for that index was 109.75.[1] Although CW-1 proposed to Grout that he mark the investment at 110, which was within the bid-offer spread, Grout marked it at 107.25—*i.e.*, 2.5 basis points more aggressively than the lowest bid received that day. Grout reported to management a daily mark-to-market loss of only $4 million on March 16 for the SCP, telling CW-1 that he was "at -4 [million]" with "lots of effort." If Grout had used the mark that CW-1 had proposed, the loss would have been greater by more than $100 million.

[1] The prices for CDX IG S9 10Y were quoted in basis points. A basis point is equal to one hundredth of a percent. Given the large notional size of the investments held by the SCP, marks that diverged by only a few basis points could have had values that were different by many millions of dollars.

Martin-Artajo Rebukes CW-1 for
Disclosing a Large Daily Loss to Management.

40. CW-1 made several efforts to alert management about the declining value of the SCP, only to be rebuffed by Martin-Artajo. In a presentation for a meeting with senior risk management personnel, CW-1 included a slide showing losses in the SCP that incorporated the gap between Grout's marks and mid-market prices. Martin-Artajo, however, directed that the loss data be removed before the meeting, admonishing CW-1 in an email that the meeting would "be only about Risk, so I do not want any P/L conversation . . . ."

41. On March 20, 2012, as the market continued to move adversely against the SCP, CW-1 left Martin-Artajo a voicemail in the evening advising him that he planned to report to CIO management a daily loss of approximately $40 million, the largest loss shown to-date in 2012, and added, "I think we should, we should start, start showing it," referring to the gap between Grout's marks and mid-market prices. Without waiting for Martin-Artajo to respond, CW-1 instructed Grout to report in the daily P&L Predict a daily loss of $39.7 million. CW-1 also prepared commentary, which Grout included in the report to CIO management, in which he predicted future losses: "The net result is a loss of $40M and we must expect more to come until investors opt to profit from the ongoing lag in those series 9."

42. After Grout sent the report, Martin-Artajo called CW-1 to rebuke him: "Why did you do that?" CW-1 replied, "I thought we should actually you know, not do like minus, minus 5 every day but just say okay boom you know there is, there is something happening." Martin-Artajo responded, "I don't understand your logic mate, I just don't understand . . . I know that you have a problem you want to be at peace with yourself . . . I didn't want to show the P&L . . . You know, I think that you're an honest guy, you know, it's just that, I did not want you to do it

this way, but you know you feel that the bid offer spreads are giving you a headache, and you want to release it this way. . .” During the call, CW-1 also raised with Martin-Artajo the need to bring the SCP marks “closer to where the market is even if the market is wrong.”

Martin-Artajo Urges Grout to
Mark the SCP to a Desired Target.

43. On several occasions, Martin-Artajo specified for Grout the desired amount of losses in the SCP that he wanted Grout to reflect in the marks and in his report to CIO management.

44. On March 23, 2012, CW-1 alerted Martin-Artajo to the extent of SCP losses and the gap between the marks and mid-market prices: “we have today a loss of 300M USING THE BEST BID ASKS and approx 600m from mids.” Separately, CW-1 provided the same information to Grout. Nevertheless, later in the day, after Grout talked to Martin-Artajo, he reported to CW-1 that “[w]e’re gonna show between minus 5 [million] and minus 10 [million].” In response, CW-1 told Grout, “you tell [Martin-Artajo] because it’s not my business anymore . . . it pisses me off . . . tell him it’s more than 500 [million] . . . Tell him it’s more than 500 [million] so he gets it.” CW-1 repeated this request to Grout later in the day: “all that I am asking you is to tell [Martin-Artajo] what you see / that’s it and he decides what we show / because me, I don’t know anymore.”

45. Despite the entreaties from CW-1, Grout marked the SCP on March 23, 2012, per Martin-Artajo’s instructions, to show a daily loss of only $9.5 million, which he reported to CIO management. The $9.5 million loss was achieved, in part, by marking the SCP’s large investment in the CDX IG S9 10Y index well outside the bid-offer spread reflected in dealer quotes received that day. Had Grout marked that investment alone at the advantageous end of

the bid-offer spread—which still would not have reflected its fair market value—the SCP's mark-to-market losses on March 23 would have been larger by more than $90 million.

46. Early on Friday, March 30, 2012—the last trading day in the first quarter of 2012—Grout told CW-1 that his estimated daily mark-to-market loss for the SCP was $250 million, a figure that CW-1 relayed to Martin-Artajo. Later in the day, Grout told CW-1 that he now estimated the daily mark-to-market loss at approximately $220 million.

47. Despite these predictions, in a call with CIO management Martin-Artajo predicted only $150 million in daily mark-to-market losses for the SCP. In an email to CIO's Chief Risk Officer and another CIO executive shortly after 1 p.m., Martin-Artajo wrote that $150 million was the best estimate for the daily loss, which could be "as bad as 175 [million] down if US equities sell off and not better than 125MM down." Later in the afternoon, when the Chief Risk Officer asked for a "worst case" estimate, Martin-Artajo responded that CIO "could have a very bad number" of up to $150 million, noting that "there is one position here that matters" such that "3 [basis points] in that position will explain 100 million."

48. By the close of trading in London, Grout's estimated daily mark-to-market loss for the SCP was around $200 million. When Martin-Artajo asked if $150 million was achievable, CW-1 replied that it was unlikely. Shortly after, Martin-Artajo told CW-1 that he could leave the office for the day.

49. As noted, JPMorgan's accounting policy directed that, with respect to prices used for marking the SCP's investments, such prices "must be obtained [from dealers] at the same time each business day." Despite this guidance, Martin-Artajo directed Grout to not complete the marking process by 7 p.m. in London, as the traders usually did, but instead to wait and see if

better prices could be seen in the U.S. markets and support more favorable marks. Martin-Artajo also directed Grout to use, in marking the SCP, the "best" prices (*i.e.*, the most advantageous prices within the bid offer spread) in the hope that this would lead to his desired daily mark-to-market loss of no more than $150 million. In light of Martin-Artajo's instructions, the usual deadline for entering the marks into JPMorgan's accounting system was delayed.

50. Shortly after 8 p.m. in London, Martin-Artajo emailed Grout, "Any better numbers so far?" Grout responded, "no, the market has been very quiet, with very few updates in tranches." At 9:15 p.m., Martin-Artajo wrote to CIO's Chief Risk Officer, "[w]e are going to close the books in one hour and still around -150 MM."

51. Before he completed marking the SCP, Grout spoke to CW-1 by phone and told him that the daily loss would be "minus 117 million." Knowing that Martin-Artajo expected a daily mark-to-market loss of $150 million, CW-1 asked Grout to revise some of the marks and increase the daily loss because it was better to do "something cleaner with . . . a lesser result," and urged Grout to mark only within the bid-offer spread. Shortly after, Grout emailed Martin-Artajo and CW-1 with a daily mark-to-market loss of $138 million. Martin-Artajo responded, "Excellent tks." At 9:47 p.m., Grout reported to CIO management a daily mark-to-market loss for the SCP of $138 million.

52. This mark-to-market loss was achieved only through substantial mismarking of many of the SCP's positions. Most of the marks Grout set on March 30, 2012 for the SCP's largest investments were at the most advantageous end of the bid-offer spread, and some of his other marks were altogether outside of the bid-offer spread. These marks did not represent fair value, and the traders knew that they could not reasonably expect to transact at those prices.

According to a subsequent analysis by JPMorgan's investment bank, the difference across the SCP between Grout's March 30 marks and consensus mid-market prices was approximately $767 million in CIO's favor.

D. The Mismarking Continues in April 2012.

53. The Defendants continued to mismark the SCP in April 2012. On April 6, 2012, *Bloomberg* and the *Wall Street Journal* published articles concerning CIO and its large investments in credit derivatives. On the morning of April 10—the first trading day in London after the articles came out—Grout informed CW-1 that the SCP had declined in value by approximately $700 million that day. Despite the staggering decline, on the evening of April 10, Grout disseminated a report, at the direction of Martin-Artajo, showing a daily mark-to-market loss for the SCP of only $5.7 million. An hour and a half later, Grout replaced this report with another one that reported a much higher daily loss of $395 million.

54. As April progressed, Grout faced scrutiny from JPMorgan personnel about the value of the SCP. On April 13, 2012, he called CW-1 to complain about the heightened scrutiny: "[M]y problem is what type of reporting should I do . . . You see, it's highly scrutinized now . . . [t]he market moves . . . and I don't want to, I don't want to show something that is too false."

55. On April 20, 2012, JPMorgan's management was informed that the firm had received several collateral calls relating to the SCP's investments, in the total amount of approximately $520 million. Within days, JPMorgan decided to relieve the SCP traders of their responsibility to trade in and mark the SCP. JPMorgan also began marking all investments in the SCP to consensus mid-market prices.

56. During an internal review of the SCP's quarter-end marks, triggered by the sizeable collateral disputes, Martin-Artajo provided misinformation to JPMorgan management.

In an email on April 29, 2012 to CIO executives in, among other places, New York, Martin-Artajo falsely wrote that the traders had marked the SCP's investment in the CDX IG S9 10Y index at 112.24, not 110.75 as the traders had actually done. In the email, Martin-Artajo compared the false 112.24 mark to two consensus prices of 112 and 112.38 and to JPMorgan's investment bank's mark of 113.13, purportedly to demonstrate that "[o]ur mark is 112.24 bps vs [the consensus price] that looks close enough . . ."

57. On May 8, 2012, a JPMorgan accountant reviewing the SCP's quarter-end marks questioned Martin-Artajo by telephone on the migration of the marks from mid-market prices to the advantageous end of the bid-offer spread. Martin-Artajo denied that the traders had any bias, and claimed that the quarter-end marks were not aggressive. In another conversation, Martin-Artajo told the accountant that it was not the traders' job to mark the SCP to the standards required by GAAP.

E. JPMorgan's Restatement

58. On April 13, 2012, JPMorgan issued its earnings release for the first quarter of 2012, filed on Form 8-K with the Commission. The earnings release reported that JPMorgan's consolidated quarterly income before income tax expense was $7.641 billion. On May 10, 2012, JPMorgan filed its report for the first quarter of 2012 with the Commission on Form 10-Q, which contained the same financial information.

59. On July 13, 2012, after conducting an investigation of the SCP traders and Grout's quarter-end marks, JPMorgan announced that it would restate these results because it had "discovered information that raises questions about the integrity of the trader marks and suggests that certain individuals may have been seeking to avoid showing the full amount of the losses in the [SCP] during the first quarter," and because the firm had lost confidence that the

SCP marks used to prepare the first quarter results "reflected good faith estimates of fair value at quarter end."

60. The restatement reduced JPMorgan's consolidated income before income tax expense from $7.641 billion to $6.981 billion. On August 9, 2012, JPMorgan formally restated its first quarter results, consistent with its July 13, 2012 announcement, by filing an amended quarterly report on Form 10-Q/A with the Commission. JPMorgan found that as of March 30, 2012, 107 of the SCP's 132 investments had been marked more favorably than mid-market levels. Many of these positions were marked at the most advantageous end of the bid-offer spread.

FIRST CLAIM

Violations of Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c)

61. The Commission repeats and realleges Paragraphs 1 through 60 of this Complaint as if fully set forth herein.

62. As alleged herein, Defendants Martin-Artajo and Grout, directly or indirectly, singly or in concert, by the use of the means or instrumentalities of interstate commerce or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of securities, knowingly or recklessly, employed devices, schemes and artifices to defraud and/or engaged in acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchases of securities or upon other persons. Defendants Martin-Artajo and Grout each knew, or were reckless in not knowing, that their activities as alleged herein were part of an overall scheme and course of conduct that was improper.

63. By reason of the foregoing, Defendants Martin-Artajo and Grout violated, and unless enjoined and restrained will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5(a) and (c) thereunder [17 C.F.R. 240.10b-5(a) and (c)].

SECOND CLAIM

Violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1

64. The Commission repeats and realleges Paragraphs 1 through 60 of this Complaint as if fully set forth herein.

65. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets. The valuations Defendants Martin-Artajo and Grout entered for the SCP's investments into JPMorgan's systems were books, records or accounts subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

66. As alleged herein, Defendants Martin-Artajo and Grout knowingly circumvented a system of internal accounting controls and knowingly falsified, directly or indirectly, or caused to be falsified books, records and accounts of JPMorgan that were subject to 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)]. Among other things, Defendants Martin-Artajo and Grout falsified, or caused others to falsify, the valuation records that JPMorgan used in its financial reporting and circumvented JPMorgan's accounting policies that were designed to ensure the integrity of the firm's financial reports.

67. By reason of the foregoing, Defendants Martin-Artajo and Grout violated, and unless enjoined and restrained will continue to violate, Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rule 13b2-1 thereunder [17 C.F.R. 240.13b2-1].

THIRD CLAIM

Aiding and Abetting Violations of Section 13(b)(2)(A) of the Exchange Act

68. The Commission repeats and realleges Paragraphs 1 through 60 of this Complaint as if fully set forth herein.

69. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets. The valuations Defendants Martin-Artajo and Grout entered for the SCP's investments into JPMorgan's systems were books, records or accounts subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

70. As alleged herein, JPMorgan failed to make and keep books, records and accounts, which in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets in violation of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

71. Defendants Martin-Artajo and Grout knew, or were reckless in not knowing, of JPMorgan's violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] and substantially assisted those violations.

72. By reason of the foregoing, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendants Martin-Artajo and Grout aided and abetted, and unless enjoined and restrained will continue to aid and abet, violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

FOURTH CLAIM

Aiding and Abetting Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-11 and 13a-13

73. The Commission repeats and realleges Paragraphs 1 through 60 of this Complaint as if fully set forth herein.

74. JPMorgan failed to furnish to the Commission, in accordance with the rules and regulations prescribed by the Commission, such financial reports as the Commission has prescribed, and JPMorgan failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-11 and 13a-13 thereunder [17 C.F.R. 240.12b-20, 240.13a-11 and 240.13a-13].

75. Defendants Martin-Artajo and Grout knew, or were reckless in not knowing, of JPMorgan's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-11 and 13a-13 thereunder [17 C.F.R. 240.12b-20, 240.13a-11 and 240.13a-13] and substantially assisted those violations.

76. By reason of the foregoing, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Defendants Martin-Artajo and Grout aided and abetted, and unless enjoined and restrained will continue to aid and abet, violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-11 and 13a-13 thereunder [17 C.F.R. 240.12b-20, 240.13a-11 and 240.13a-13].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court grant the following relief:

I.

A final judgment permanently enjoining and restraining Defendants Martin-Artajo and Grout, their agents, servants, employees, attorneys, assigns and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating, directly or indirectly, Sections 10(b) and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78m(b)(5)] and Rules 10b-5(a) and (c) and 13b2-1 thereunder [17 C.F.R. 240.10b-5(a) and (c) and 240.13b2-1].

II.

A final judgment permanently enjoining and restraining Defendants Martin-Artajo and Grout, their agents, servants, employees, attorneys, assigns and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from aiding and abetting violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act [15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)], and Rules 12b-20, 13a-11 and 13a-13 thereunder [17 C.F.R. 240.12b-20, 240.13a-11 and 240.13a-13].

III.

A final judgment ordering Defendants Martin-Artajo and Grout to disgorge, with prejudgment interest thereon, all illicit profits or other ill-gotten gains received, and all amounts by which they have been unjustly enriched, as a result of the conduct, acts, or courses of conduct alleged in this Complaint, including, as to each Defendant, his own illicit profits, ill-gotten gains, or unjust enrichment, and such other and further amounts as the Court may find appropriate.

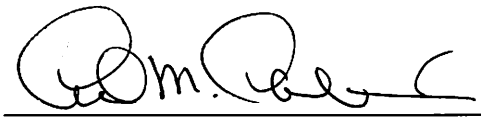
IV.

A final judgment ordering Defendants Martin-Artajo and Grout to pay civil monetary penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

V.

Granting such other and further relief as the Court deems just and proper, including such equitable relief as may be appropriate or necessary for the benefit of investors.

Dated: August 14, 2013
New York, New York

By: 

Andrew M. Calamari
SECURITIES AND EXCHANGE COMMISSION
Regional Director
New York Regional Office
3 World Financial Center
New York, NY 10281
Tel: (212) 336-1100

Of Counsel:
Michael J. Osnato
Steven G. Rawlings
Joseph O. Boryshansky
Peter Altenbach III
Joshua Brodsky
Daniel Michael